

Message Text

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C O N F I D E N T I A L LISBON 5531

E.O. 11652: GDS
TAGS: MARR AID PO
SUBJ: FUTURE U.S. ASSISTANCE TO PORTUGAL AND THE AZORES BASE
AGREEMENT

REF: A) STATE 182780 B) LISBON 5530

1. WE BELIEVE THE AZORES SHOULD HAVE LITTLE DIFFICULTY ABSORBING
\$80 MILLION IN ECONOMIC ASSISTANCE OVER THE NEXT 4-1/2 YEARS.
AS THE FOLLOWING INDICATES, THE POTENTIAL DEMAND FOR FINANCING
IS EXTREMELY LARGE. WE ANTICIPATE THAT IT WOULD BE POSSIBLE
TO DISBURSE THE GRANT QUICKLY.

2. OUR DISBURSEMENTS WOULD TAKE TWO BASIC FORMS, DIRECT
AND INDIRECT:

A. THE DIRECT FINANCING WOULD BE USED FOR NUMEROUS INFRA-
STRUCTURE PROJECTS, SUCH AS PORTS (PROPOSED AT PRAIA DE
VITORIA, SANTA MARIA, GRACIOS AND FLORES), ROADS, CIVIL
AVIATION, COMMUNICATIONS, ENERGY AND TOURISM. THE LAJES
ECONOMIC PACKAGE WOULD BE GRANT AID THAT CAN BE USED FOR A
MUCH BROADER RANGE OF PROJECTS THAN OUR PRESENT ASSISTANCE
PROGRAM, WHICH STRICTLY FOLLOWS THE "NEW DIRECTIONS"
GUIDELINES OF CONGRESS AND IS FOCUSED ON SOCIAL AREAS.
THE POSSIBLE PROJECTS WOULD HAVE A TOTAL COST WELL IN
EXCESS OF \$80 MILLION AND, ONCE UNDERWAY, WOULD LIKELY
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DISBURSE FAR MORE RAPIDLY THAN PROJECTS INVOLVING LARGE
SCALE INSTITUTIONAL CHANGES.

B. THE INDIRECT FINANCING WOULD BE CHanneled THROUGH
A REGIONAL DEVELOPMENT BANK. THE AZOREAN GOVERNMENT IS
PRESSING FOR THE CREATION OF SUCH AN INSTITUTION. ALTHOUGH
INSTALLATION OF A REGIONAL BANK MIGHT REQUIRE 12-24
MONTHS, THIS DELAY SHOULD CASE NO MAJOR DIFFICULTY. DURING

THAT PERIOD OF FORMATION, THE REGIONAL OFFICE OF THE NATIONAL DEVELOPMENT BANK COULD PRESUMABLY ADMINISTER FUNDS ON BEHALF OF THE REGIONAL GOVERNMENT. PERHAPS \$20-40 MILLION OF THE PROJECTED \$80 MILLION COULD BE TRANSFERRED PROMPTLY TO THE REGIONAL INSTITUTION FOR SUBSEQUENT RELENDING. THERE WOULD BE SUFFICIENT POTENTIAL PROJECTS IN AGRICULTURE, AGRO-BUSINESS, FISHING, ETC. FOR FINANCING.

3. THE AZORES CURRENTLY HAVE, EVEN BY PORTUGUESE STANDARDS, A LOW LEVEL PER CAPITA INCOME, CAUSED IN MANY RESPECTS BY THE ISOLATION OF THE REGION. IMPLEMENTATION OF THE INFRASTRUCTURE AND INDUSTRIAL PROJECTS MENTIONED ABOVE WOULD REDUCE THIS ISOLATION, LOWER TRANSPORTATION COSTS, AND EASE THE SERIOUS UNEMPLOYMENT PROBLEM. WE ANTICIPATE THAT THESE PROGRAMS WOULD SPARK A MAJOR INCREASE IN ECONOMIC ACTIVITY AND RAISE LIVING STANDARDS SUBSTANTIALLY, ALTHOUGH THE ACTUAL IMPACT WILL DEPEND ALSO UPON THE SPECIFIC PROJECTS SELECTED AND THE ORDER IN WHICH THEY ARE IMPLEMENTED.

BLOOMFIELD

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